

TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Deborah Taylor Tate, Director
Pat Miller, Director
Ron Jones, Director



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

August 30, 2002

T. Arthur Scott, Jr.
Hunter, Smith & Davis, LLP
1212 North Eastman Road
P.O. Box 3740
Kingsport, Tennessee 37664-0740

Re: Kingsport Power Company - Application Requesting Findings Under 15 U.S.C. §
79z-5a(c) and Representations Under Securities and Exchange Commission Policy

Docket #02-00190

Mr. Scott:

Enclosed is a copy of the letter the Tennessee Regulatory Authority ("TRA" or "the Authority") sent to the Securities and Exchange Commission ("SEC") regarding increases in the investment authority of American Electric Power Company ("AEP") to invest in foreign utility companies ("FUCOs") and exempt wholesale generators ("EWGs"). We were able to make the findings required by the SEC. We still have some concerns, however, about the findings required by the Federal Energy Regulatory Commission ("FERC") that will allow AEP to convert its generating facilities to EWGs.

The TRA is required by law to allow price-regulated companies to charge rates that fully compensate them for their costs, as well as allow them to earn a fair rate of return. The TRA does not regulate the prices charged to Kingsport Power Company ("KPC") for electricity. If AEP's generating facilities are converted to EWGs, regulations that have ensured just and reasonable rates for electric generation will no longer apply. Should AEP raise rates for electricity delivered to KPC, the TRA will have no recourse other than to request relief from the FERC, which may or may not provide relief to the extent the Authority deems necessary.

The original application states that "Consumers in every state... will benefit regardless of whether the retail customers in any given state have the right to choose a retail generation supplier" (emphasis added). The Authority has not found AEP's assurances that EWG conversion will necessarily benefit Tennessee consumers to be convincing.

The TRA is also concerned about the increased mobility of electricity generated by EWGs. It is our understanding that one of the goals of EWG conversion is to allow AEP to sell the power it generates to companies all over the country. While we understand that this will allow the country as a whole to maximize its power generation dollar, we are not certain that Tennessee consumers will benefit from the arrangement. Historically, Tennessee consumers have enjoyed some of the lowest electricity rates in the nation. While the net benefit among all states should certainly be positive as a result of the conversion of traditional generators to EWGs, it is possible that Tennessee consumers will see rate increases in this case.

Though it does not say so explicitly, the reasoning in your letter dated June 20, 2002 suggests that AEP will benefit so much from the proposed deregulation, that rates overall will decrease, allowing rate averaging to occur around a new, lower average. This, your letter suggests, will allow Tennessee consumers to enjoy stable or declining rates, even as national rates are averaged. We would be interested in seeing any research or cost benefit analyses AEP has supporting this conclusion.


The finding that is requested by the FERC is a strong one, requiring the TRA to attest that the proposal will benefit consumers and is in the public interest. We do not think that we can attest to an absolute benefit to Tennessee consumers with only the information that has been provided thus far. If AEP can provide us with projections that will allow us to generate an expected value of benefits to consumers, or a comparable cost benefit analysis, we may be able to make such a finding despite the existence of risk that rates to Tennessee consumers will rise. Without any data to rely upon, the TRA would find it difficult to find that the proposed conversion will benefit Tennessee consumers and is in the public interest.

Please provide answers, and any available supporting documentation, for the following:

- 1) What assurances, if any, is AEP prepared to give the TRA concerning the prices it will charge KPC for electric generation, or, in the alternative, concerning KPC's ability to purchase power in a competitive marketplace?
- 2) Please provide any research or cost benefit analyses AEP has that support the conclusion that Tennessee consumers will benefit from EWG conversion, including cost projections for EWGs in comparison to AEP's current and projected generation costs.

If such data cannot be provided, or if either generation rates or a competitive generation market cannot be guaranteed, the TRA will be unable to recommend that the TRA Directors make findings as strong as those required. KPC is requested to supply any available information that will address these concerns by September 20, 2002.

Sincerely,


Aster Rutibabalira
Chief, Economic Analysis Division

c: Richard Collier, Jon Wike, Dan McCormac